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I1. (C) SUMMARY: The GOC claimed 7.5% GDP growth during I2007. Although even that figure is most likely exaggerated, it is significantly less growth than was claimed the previous year. While "by how much" the economy grew is debatable, it is undeniable that the Cuban economy is growing. The GOC's four targeted areas for the 2007 economic plan (energy, transportation, housing, and food shortages) saw mild improvement overall but continue to be main sources of popular discontent and therefore remain priorities. This cable analyzes the performance of major sectors of the Cuban economy. End Summary.

The figures:

I2. (U) As is usually the case, economic statistics are mainly GOC sourced, reviewed by a few official international agencies -- such as the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) -- and also by many unofficial examiners (such as many academics, economists, think tanks, and us). Most official figures can be taken as "ballpark" accurate and as such reliable for making some conclusions about the economy. For a fuller explanation of the Cuban "Social" GDP methodology see Ref A. We make an effort to point out when a given statistic may not be reliable. More often, however, it is the absence of figures -- statistics that the GOC has failed to publish as part of its national income accounts -- that precludes us, as well as most experts, from reaching meaningful conclusions.

Growth:

¶3. (C) The GOC claimed 7.5% GDP growth during 2007, which is slower growth than the previous year -- when the GOC claimed 12.5% GDP growth -- and short of its stated goal of 10% growth for 2007. In an effort to explain the heavily interpretative nature of calculating Cuban GDP, Professor Juan Triana Cordovi, from the Center for the Study of the Cuban Economy, confided to Econoff that, "Last year my challenge was explaining how the economy grew so much; this year my challenge is explaining how the economy didn't grow as much." Although he would not discuss whether the figure was accurate, what is certain to him -- and to most economists outside of Cuba -- is that the Cuban economy is growing. (Comment: We agree that the Cuban economy, at a macro level, is growing. A separate but related issue is that the inherent inefficiencies of Cuba's centrally-planned economy waste much of this growth before it is ever seen by the average Cuban. End Comment.)

¶4. (U) Other significant 2007 growth indicators follow:

-- Investments: Up 16.8%. Demonstrated stability after Fidel Castro's incapacitation in July 2006, as well as increased expectations from investors of new post-Castro opportunities, were likely factors behind the increased investment during 2007.

-- Labor productivity: Up 5%. Worker productivity is abysmal in Cuba, so a 5% increase is not difficult, yet it is significant in that it is listed as improving.

-- Average salary: Up 5.4%. Official salaries are extremely low in Cuba (about USD 16 per month) and it is well known that those salaries provide insufficient purchasing power to most Cubans. The fact that these almost irrelevant salaries grew more than worker productivity underscores how insignificant 5% growth in labor productivity really was.

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-- Consumer price index: Up 2.5%.

-- Fiscal deficit: 3.1% of GDP, down from 3.2% in 2006.

-- Exports: Up 24%.

-- Imports: Up 2%.

-- Price of imported oil: Up 9%.

-- Price of imported food: Up 24%.

Health:

¶5. (SBU) Exported medical services and products, which include licensing fees over Cuban patents, now constitute the principal source of foreign revenues for Cuba. These exports continue to be highly dependent on privileged bilateral arrangements with Venezuela, where at least 31,000 Cubans provide various -- although mainly medical -- services. There are no published statistics on the revenues derived from these services but it is estimated that medical service exports bring in more than USD 4 billion and medical product exports more than USD 500 million. Altogether, medical exports are considered to pay the bill for imported oil, which accounts for about a fourth of Cuba's total imports. For more information on the health sector see Ref C.

Nickel:

¶6. (SBU) Nickel production grew only 2.2% in Cuba during 2007, but international prices increased about 54% throughout the year. Increased prices caused revenues from nickel exports to jump from USD 1.8 billion in 2006 to USD 2.8 billion in 2007. Domestic production will not improve

significantly until new investment projects come online. These include Canadian Sherritt and a Venezuela state company. For more information on the Cuban nickel sector see Ref D.

Energy:

17. (C) Oil and gas: After three years of decline, combined oil and gas production increased about 3% in 2007, by an estimated 4 million tons of equivalent petroleum. Domestic production is vital within the context of GOC import substitution plans, especially in the face of a 9% average increase in oil prices from 2006 to 2007. Jointly with Venezuela, the GOC reportedly started production at the Cienfuegos refinery. The refinery is meant to fulfill a larger ALBA goal of becoming a distribution hub for President Hugo Chavez, but it also fulfills the GOC's own goal of developing its petrochemical infrastructure -- for the future after Chavez. The GOC has also begun efforts to diversify its oil supply clientele. We have heard from other diplomats that the GOC is exploring possible deals with other countries, such as Algeria and Angola, as supplementary/alternate sources of oil. Significant increases in domestic oil production can only come from offshore drilling in Cuba's Exclusive Economic Zone. But that is still several years away, given that none of the GOC's partners have gone beyond the exploratory drilling phase. For more information on the GOC's long-term oil strategy see Ref E.

18. (SBU) Electricity: Generation capacity increased by 2% and blackouts continued to be more the exception than the rule for the second year in a row. The GOC continues its program of distributing new low-quality Chinese appliances to the population in an effort improve energy efficiency. Taking advantage of its privileged arrangement with Venezuela and preempting the era of USD 100 per barrel of oil, the GOC has completely revamped its energy generation and distribution network by investing in small and medium-sized independent electricity generation plants, which are now working throughout the country. Most plants are powered by cheaper fuel oil, diesel or natural gas, and, because they are all over the country, can deliver electricity closer to

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the source, lowering the amount of wasted electricity during distribution. The system's weaknesses, however, include higher distribution and delivery costs to get the fuel to numerous locations throughout the island as well as the fact that most of the plants were originally designed for temporary and emergency uses -- not the 24/7 operation preferred by the GOC. While the new network has greatly improved Cuba's dire electricity distribution situation, it is questionable whether it is a viable long-term solution.

Agriculture:

19. (SBU) GOC figures advertise growth of 23.7% in the agriculture sector (Note: also includes animal products such as pork, meat, poultry, and eggs; Non-sugar agriculture production only increased by 18%. End Note.). It is true that the sector grew, but it should be noted that the comparison baseline from 2006 -- when agricultural output decreased by 7.5% -- was very low. Except for heavy flooding that affected the eastern provinces during October, Cuba enjoyed relatively good weather for agriculture in 2007. The GOC implemented new mechanisms to liquidate arrears payments to many farmers and introduced pay incentives for producers of milk, beef, and a few other products. Milk production increased 17%, though the population continues to complain that availability is limited. Pork production, which had been growing for the past three years, hit a new record level. The prices of agricultural products remained high and beyond the reach of most Cubans, which consequently

contributed toward the 2.5% increase in the consumer price index for prices in Cuban national pesos (CUP), the low-value currency used by most Cubans. For more information on the Cuban agriculture and why it may be a likely experimental sector for GOC reforms see Ref F.

Manufacturing:

¶10. (SBU) Production in the non-sugar industry grew 7.8%, compared to only 2.4% in 2006. The most dynamic increase was in pharmaceutical products, which grew 21%.

Transportation:

¶11. (SBU) This sector has been a hot button with the Cuban people. The GOC realized this and committed significant resources to improve the transportation sector, which grew 7.9% (again, from a negative growth the previous year). According to official GOC press, freight transport (land and maritime) grew, although it is unclear by how much. Urban transport improved noticeably, although thus far the increase appears to have been limited to Havana and other major urban centers. For this purpose, the GOC bought 1,548 buses from China, 806 of which have been delivered and are supposedly in circulation. While we can not vouch for the actual number of buses, we can confirm, personally and anecdotally, the noticeable increase in public buses as well as the overall conviction, which is even acknowledged by the GOC, that it is only "a drop in the bucket" and that much more is needed.

Negative growth sectors: Tourism, sugar, construction

¶12. (SBU) Tourism: For the second year in a row tourist arrivals decreased, this time by 3.1%, from 2.22 million in 2006 to 2.15 million in 2007. This means that in 2007 the GOC received approximately USD 2.385 billion in tourism-related revenues, or about USD 15 million less than in 2006. The 2007 decrease further exacerbated the previous decline in 2006 (4.2%), reflecting a new low since the GOC opened tourism to the outside world in the 1990s. For more information on Cuban tourism and the causes of its decline, see Ref G.

¶13. (SBU) Sugar: Production declined 4%, from 1.2 million tons in 2006 to 1.15 million tons 2007. This, combined with a 37% decrease in average international prices during harvest season, caused a 44% decrease in revenues for the year, from USD 198 million in 2006 to USD 110 million in 2007. The GOC

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appears to have begun this harvest season with significantly more sugar mills in operation than last year and has taken a number of measures that, barring unusually strong rains -- which happened last year -- during the dry harvest season, should make 2008 a year of positive growth in sugar.

¶14. (SBU) Construction: Construction decreased 9% in 2007. Housing is another hot button issue for Cubans, but one which the GOC, despite an increased priority and commitment of resources, has been unable to improve. For more information on Cuban construction and the causes of its decline, see Ref ¶H.

Comments:

¶15. (C) There is positive economic growth in Cuba but the average Cuban barely notices. The reason for this is that significant economic growth is required simply to keep 49-year-old communist Cuba from further decay. On average, Cubans have maintained their subsistence-level socialist existence. In other words, Cuba is not improving much, but just to keep patching up the country is costly. Maintenance

of this level of subsistence is a major reason why even though economic pressure for change is mounting, it has not reached a level that would cause Cubans to risk openly opposing the GOC.

¶16. (C) Cuba continues to export mainly medical services to Venezuela in exchange for oil, yet simultaneously prepares for its worst-case contingency: A Cuban economy without Venezuela. This preparation involves making slow progress towards long-term energy self-sufficiency (increasing domestic production, exploration and eventual drilling, and improving infrastructure). The GOC was able to slow the rate of growth of its food imports, which painfully continue to drain a good amount of the government's precious hard currency.

¶17. (C) Significantly, the GOC promoted widespread debate among Cubans about economic problems. While Raul Castro says the GOC is thoroughly analyzing the problems and admits that solutions will take time, it appears that inside the regime debates continue between economic experts -- who could be potential reformers -- and recalcitrant communists about everything from what the proper diagnosis is, how to treat it, and how aggressively (what amounts of dosage would be politically tolerable and how fast or gradual). In the meantime, no significant reforms have been introduced and expectations continue to build among Cubans. After enough visits to the doctor, Cubans may eventually tire of being diagnosed and of hearing "discussion" about possible treatments. If the GOC does not begin treatment soon, Cubans may inevitably demand it.

PARMLY